

Improving Uganda's Export Competitiveness Summary Plan of Action

**Submitted by
Competitive Private Enterprise and Trade Expansion
The COMPETE Project**

Prepared by Anton
Balasuriya

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TABLE OF CONTENTS

I. COMPETE in the Context of an Export Oriented Growth Strategy	3
II. STRENGTHENING THE EXPORT COMPETITIVENESS OF UGANDA’S COFFEE SECTOR	7
1. The Challenge:	7
2. The Problem:	7
3. The Opportunity:	7
4. The Strategy:	8
5. Actions:	8
6. The Participants:	8
7. Short and Long -Term Action Plan:	9
8. Expected Results	10
III. STRENGTHENING THE EXPORT COMPETITIVENESS OF UGANDA’S COTTON SECTOR	11
1. The Challenge:	11
2. The Problem:	11
3. The Opportunity:	11
4. The Strategy:	12
5. Actions:	12
6. The Participants:	12
7. Short and Long -Term Action Plan:	13
8. Expected Results	14
IV. STRENGTHENING THE EXPORT COMPETITIVENESS OF UGANDA’S FISHERIES SECTOR	15
1. The Challenge:	15
2. The Problem:	15
3. The Opportunity:	15
4. The Strategy:	15

5.	Actions:	16
6.	The Participants:	16
7.	Short and Long Term Action Plan:	16
8.	Expected Results	17

I. COMPETE in the Context of an Export Oriented Growth Strategy for Uganda

Uganda has achieved remarkable success since 1992 in achieving economic stabilization and growth rates of 6.7% per annum, albeit from a depressed base. However, much of this growth has been driven by increased consumption, especially in urban areas, based on high level of donor support, repatriated earnings from Ugandans living abroad, and the short term benefits of economic liberalization. Given relatively low rates of investment and the limited size of the domestic market, economic growth rates are not sustainable and unlikely to support improved income levels for the majority of the population.

As with most emerging economies, exports must be the engine or driver of rapid and sustained economic growth. Export markets have sufficient size and buying power to absorb the output of agricultural, industrial or service “sectors” that can productively employ hundreds of thousands of Ugandans. The enhanced earning power of Ugandans selling into export markets can then generate demand for additional domestic providers of goods and services.

Uganda has previously been successful in export markets, especially with agricultural commodities. However, in recent decades, its competitive position in traditional commodity markets has eroded and only a few new opportunities have been taken advantage of in non-traditional export commodities (e.g. cut flowers, fresh fish). Gaining (or even defending) market share, in international markets is increasingly difficult as a result of ever more demanding customers (who have more and more choices) and stronger competitors from around the world. Successfully competing in international markets (competitiveness) is all about meeting market requirements (success factors) better than competitors. It is also about obtaining as much as possible of the value paid by final consumers for goods and services by focusing on appropriate niche markets and value added opportunities.

The mission of the Competitive Private Enterprise and Trade Expansion (COMPETE) project is to help Uganda implement an export-oriented growth strategy, within the context of the Government’s Medium Term Competitive Strategy for the Private Sector and the Plan for Modernization of Agriculture (PMA). Specifically, COMPETE has begun to:

- Focus on selected “sectors” or opportunity areas with the best chances for large-scale success in world markets, retain the highest possible value in Uganda and provide improved incomes for a significant percentage of the Ugandan population.
- Bring together the principal private and public sector actors within each sector or opportunity area to analyze present strengths, weaknesses, opportunities and threats and design aggressive, export based growth strategies;
- Develop catalytic activities through which private sector and government participants can commence implementation of these sector growth strategies.

- Design and implement a public information & communications program to stimulate a national debate on Uganda's competitiveness, disseminate knowledge of world markets, trends and tastes to producers, traders and exporters within each sector, and attract foreign investors and buyers to Uganda.
- Provide a model that can be replicated in other sectors and opportunity areas.

COMPETE is based on the following essential principles of country competitiveness:

- *Private sector leadership.* Since private investment is the most critical requirement for export-led growth, it is incumbent upon the private risk takers (from the smallest farmers to the larger international companies) to take the lead in driving competitiveness strategies. Although implementation requires the cooperation and collaboration of many stakeholders, from the producer to the exporter, from business associations to government officials and donors, the crucial focus is on mobilizing private investment while improving quality and productivity required for private business to succeed. Under COMPETE, sector competitiveness strategies are developed through a collaborative process led by the private sector, but in which all stakeholders identify and reach consensus on the key priorities and actions that are needed to increase competitiveness. The stakeholder working groups then become coordinators and monitors of implementation of the strategies.
- *Government as partner.* The Ugandan government's liberalization policies have resulted in a strong private sector response to market opportunities, demonstrating the constructive role that government can play in removing constraints to business, while at the same time facilitating a positive business environment. The COMPETE approach is aimed at reinforcing the constructive role of government as a stakeholder and partner with business, especially in addressing specific policy and infrastructural constraints to investment and exports. In addition, at its highest levels, Government is uniquely positioned to promote the strategies both to the Ugandan population and international investors and buyers.
- *Objective measurement of competitiveness.* The stakeholder working groups utilize the competitiveness "diamond" approach to identify and structure their sector strategies. This approach focuses on four elements, including the structure and strategy of the specific sector, the factors of production, the nature of market demand, and the degree of collaboration among the cluster of firms, supporting industries, government agencies, business associations, and financial institutions. In each of these areas, strengths and weaknesses are identified and implementation actions prioritized. Progress is then monitored relative to specific competitiveness benchmarks.
- *Implementation of Catalytic Activities.* Within each of the priority sectors selected for initial action, working groups will coordinate strategic interventions that remove the most critical bottlenecks or constraints to competitively meet international market requirements, while also demonstrating the effectiveness of the approach and creating local capacity to implement it in other sectors. Follow-up of cross-cutting policy issues or bottlenecks that affect all sectors will be

closely coordinated with the Special Task Force on Export Competitiveness, the Private Sector Foundation, Uganda Investment Authority and other relevant entities.

- *Leveraging Impact through Information and Communications Technology (ICTs).* COMPETE will apply the most appropriate available technologies to improve the competitiveness of firms in the selected priority sectors, while providing opportunities for expansion of the ICT sector through demand generation.
- *Country-wide public information strategy.* COMPETE will stimulate a national debate aimed at raising awareness of the implications of competitiveness for economic growth, encouraging participation in the process, and demonstrating how the approach can be applied effectively to other sectors of the economy. In addition, it will help improve the effectiveness of targeted promotion abroad in attracting investors and buyers (working with UIA and others), and enhancing the marketing and image of Ugandan products.

COMPETE was designed to respond flexibly to private sector initiative, and therefore is structured to be flexible, pragmatic, and hands-on. Consequently, COMPETE will focus on strategy, communications and facilitation of Ugandan stakeholder involvement, and will have a limited implementation role. This is consistent with the key emphasis placed on private sector leadership. COMPETE will collaborate with the other key components of USAID's overall private sector strategy, including SPEED, IDEA, and Trade Policy, which will take on implementation initiatives identified in the sector action plans, as will organizations such as Uganda Investment Authority, sector specific institutions and other donor projects. COMPETE, however, will have the capacity to directly support selected catalytic efforts aimed at demonstrating that a strategic competitiveness approach, as coordinated and implemented by the key stakeholders, can be effective in significantly increasing productivity, quality, value added earnings.

Immediately after project start-up in December 2000, COMPETE began coordinating closely with the Presidential Task Force on Export Competitiveness. The first collaborative activity was to carry out a rigorous prioritization process to select the four sectors or opportunity areas that would represent the principal focus of COMPETE activity. From a long list of 20 sectors, 14 were selected for further analysis. Based on rigorous criteria that considered macroeconomic impact, sector level competitiveness, and institutional and government support required to overcome infrastructural and policy barriers, the following sectors and opportunity areas were selected: coffee, cotton, fish and information/communications.¹ *Together with non-traditional agricultural exports, these sectors are expected to generate about \$450 million in additional export earnings by 2003², while directly benefiting almost nine million Ugandans.*

In mid-January 2001, the COMPETE team began an intensive period of research and interviews with government and private sector leaders in the coffee, cotton and

¹ Non-traditional horticulture, flowers and other agricultural exports are already being addressed by the IDEA project.

² The value of exports is of course highly dependent on international market prices.

fisheries sectors. In late April and early May, strategy development workshops were held with stakeholders to review, amend and enhance recommended actions. The information, analysis and proposed actions contained in this document are a direct result of that work.

The COMPETE team is confident of the wisdom and consensus behind these recommended actions. At the same time, international markets and private sector strategies are dynamic. Therefore, as COMPETE works through, and with, industry stakeholders, the strategies and actions presented in this document must be considered dynamic and subject to change.

Furthermore, now that proposed coffee, cotton and fisheries sector action plans have been prepared, the COMPETE team is commencing work on defining an Information and Communications Technology (ICT) strategy for supporting competitiveness in all three sectors. For that purpose, COMPETE will facilitate the creation of an ICT sub-working group, comprising representatives from each of the sector working groups and representatives of local private sector ICT firms. COMPETE will prepare a position paper for the sub-working group and conduct a stakeholders' workshop that will result in an action plan for ICT that supports all three of the sector action plans.

II. STRENGTHENING THE EXPORT COMPETITIVENESS OF

UGANDA'S COFFEE SECTOR

1. The Challenge:

- Coffee has traditionally been Uganda's most important export sector, currently accounting for 60% of the country's foreign exchange receipts and contributing to the incomes of 20% of Uganda's population.
- In recent years, however, external and internal factors have dramatically reduced coffee's contribution to Uganda's economic growth and foreign exchange earnings.
- Uganda must therefore address the crisis in its coffee sector as a matter of urgency.

2. The Problem:

- Externally, the dramatic drop in world coffee prices is responsible for the sharp decline in foreign exchange earnings and rural incomes in coffee-growing regions.
- Internally, the quality of Uganda's coffee exports has significantly deteriorated in the past 10 years. International customers (mainly European roasters) complain that Ugandan coffee is increasingly of low and unreliable quality compared to the past. The premium that Uganda has traditionally received for its robusta coffee is under threat.
- The internal trading system in Uganda is largely responsible for this poor quality. There is inadequate quality control and enforcement of the grading system, especially at the processor level, resulting in large discounts, and even outright rejections, by the final customers (roasters).
- Productivity is also declining at the farmer level due to aging trees, disease and poor agronomic practices.

3. The Opportunity:

- Uganda's soil, climate, and altitude permit it to produce an intrinsically high quality robusta coffee.
- The country has the opportunity to restore the quality image of its robusta coffee through effective management of quality at all levels of the system: farmers, processors and exporters.
- Not only can Uganda retain and increase its premium on coffee sold to roasters, but it can also begin to capture additional value in niche markets for washed robustas, organic and other specialty coffee.
- Farmer income and export earnings can also be enhanced by increasing productivity at the farm level

4. The Strategy:

- Increasing the value of Ugandan coffee exports involves a four part strategy:
 - 1) An urgent campaign to salvage the price premium, based on improved grading, enforcement of quality standards and stakeholder education;
 - 2) A campaign to improve farm level productivity, based on a farmer education campaign on “best practices”;
 - 3) Penetration of new market channels and segments that capture greater value for Ugandan coffee while establishing an internationally recognized “quality brand”; and
 - 4) Strengthening the ability of private associations and government institutions to provide the necessary regulatory enforcement, research, marketing/ promotion and education

5. Actions:

- Improving the competitiveness of Uganda’s coffee in world markets begins with an understanding of the unique complexities and segmentation of the international market. Ugandan coffee must be carefully classified and upgraded to meet the standards of the most appropriate segments. Those standards must be widely understood and adhered to.
- Improved enforcement of coffee grading, especially at the processor level, is particularly crucial, although quality standards must be enforced at all levels.
- Better practices by participants at all levels of the coffee system (e.g. exporters, processors, collection agents and farmers) will be encouraged by a combination of “carrot and stick”—assistance to capitalize and improve earnings combined with stiff sanctions for failing to comply with regulations.
- Over time, it is essential that the international marketplace (and not just roasters) recognize Uganda coffee as being unique and differentiated from others, allowing it to be marketed directly to supermarkets, coffee house chains and other buyers.
- More focused research is required, both into improved varieties and agronomic practices, and market opportunities.

6. The Participants:

- Highest levels of government, preferably the President, should mobilize support for a ‘national quality initiative’ to restore coffee’s international competitive position.
- The Special Task Force on Export Competitiveness can help mobilize support for stronger policy/regulatory framework and enforcement and resources for implementation of the strategy.
- The Coffee Sector Working Group, comprising leading ‘players’ in the sector, has already prepared the present strategy, and will play the key role in implementation.
- The COMPETE project (funded by USAID), as well as SPEED and other donor projects; will provide technical assistance to the Working Group.

- The Uganda Coffee Development Authority (UCDA), working with the industry, must be empowered for stricter enforcement of quality standards.
- Private sector associations of exporters and farmers will play a crucial role in delivering marketing and technical information and support to their members.
- Research functions provided by National Agriculture Research Organization (NARO) must be carefully targeted on priority needs.

7. Short and Long -Term Action Plan:

Launching of a National Export Initiative for Ugandan coffee

- Announcement by the President and Cabinet at a National Conference on Coffee.

Year 1 Action Plan -- Quality Upgrading

- Revise and publicize Uganda's coffee export classification/grading system and standards (including standards for niche markets) as well as strengthened sanctions for violations.
- Strengthen the enforcement capability of the UCDA and industry associations.
- Launch an education campaign, aimed at all sector participants, to create awareness of the worsening crisis if the quality problem is not urgently addressed, together with practical measures on how to rapidly improve quality (such as improved drying techniques at the farm level).
- Develop communication channels for reaching all segments of the coffee sector.
- Initiate projects to demonstrate and communicate 'best practices' at the farmer level.
- Undertake market research and promotion to support marketing into specialty niche markets of the 500-1,000 tons of highest quality coffee, while developing a market strategy for a unique Uganda brand image.

Years 2-5 Action Plan -- Restructuring the Coffee Sector

- Expand quality-enhancing systems such as wet milling, roasting and packaging to produce higher value 'washed robustas' for the international market.
- Broaden the market channels for Ugandan coffee, with emphasis on reaching buyers other than the principal roasters on which the country has traditionally depended.
- Develop practical mechanisms for the delivery of technical assistance, training and credit to coffee growers and processors.
- Improve physical infrastructure in coffee growing regions that impacts on production and maintenance of coffee quality.
- Increase the productivity of coffee farms through improved cultivation techniques and replanting of old trees.
- Strengthen research into higher yielding, market pleasing, lower cost and disease resistant varieties.

- Strengthen the institutions that support the coffee industry.

8. Expected Results

- More stable international market position as result of certified, reliable quality
- More reliable source of foreign exchange earnings
- Stable price premium for Ugandan producers and exporters
- Increased roaster satisfaction with purchase of Ugandan robustas
- Greater volume of ‘washed robustas’ and better quality ‘natural robustas’
- More cohesive, mutually supportive coffee industry
- More farmer-owned and farmer-managed coffee processing businesses
- Improved incomes and quality of life in coffee producing areas
- Increase in production per hectare of coffee
- Identification of alternative markets for Ugandan branded coffees
- Diversification into value added products roasted and blended to meet market requirements

III. STRENGTHENING THE EXPORT COMPETITIVENESS OF UGANDA'S COTTON SECTOR

1. The Challenge:

- Cotton has traditionally been one of Uganda's important export commodities, currently accounting for 3.6% of the country's foreign exchange receipts, and contributing to the incomes of 14% of the country's population.
- However, during the period from 1974/75 to 1993/94, external and internal factors have combined to dramatically reduce cotton's contribution to economic growth, foreign exchange earnings and rural incomes.
- With the good climate and soils that Uganda offers for growing cotton, it has the potential of being a much greater contributor to the economy.
- The challenge is to bring cotton back to its former position and Uganda needs to continue to address the crisis of the sector.

2. The Problem:

- Due to internal political disruptions, cotton production entered a period of spiraling decline.
- The sector still faces serious problems, some of which include:
 - Low cotton productivity at the farm level.
 - Little research and training due to shortages of funds.
 - Lack of an adequate finance program.
 - Lack of an organized information system that provides stakeholders with the information they need to make correct marketing decisions.
 - Low utilization of gins leading to a number of marginal ginning business operations.
- Low world market prices for cotton that are likely to continue depressed.
- With many farmers and ginners just starting to get back on their feet, efforts must be kept in place to continue the reestablishment of the sector.

3. The Opportunity:

- Uganda has the capacity to restore the cotton sector through effective support for farmers and increased management capabilities at ginneries and value-adding levels of the industry.
- Uganda has optimal agricultural and climatic conditions.
- To maintain its market position, it is essential to build on the positive goodwill effort in place between ginners and farmers that has been a focus of the Cotton Development Organization (CDO) and the Uganda Cotton Ginners and Exporters Association (UCGEA).
- In addition to the strong supportive role of CDO, ginners and farmers, other government agencies need to remain committed to the cotton sector and its resurgence.
- Support and expansion of the value adding sectors of the cotton business (textiles, vegetable oils, soap, and specialty medical type products, etc.) need to receive more focus.

4. The Strategy:

- The long-term competitiveness of the cotton sector is based on knowing what the market wants. Fortunately the characteristics of cotton from Uganda with respect to staple length, micronaire and color meet customer needs, and must be maintained or improved.
- Effective communication of what constitutes market value to each link in the cotton production system, and how best to capture increased value, is a cornerstone of the strategy.
- A second cornerstone of the strategy is to address the low level of farm productivity, which in turn will also improve the capacity utilization at the ginnery level.
- Uganda's competitiveness in the textile and other value adding sub-sectors of the industry must be fully realized to keep as much of the final market value generated by the industry in Uganda.
- The strategy will require that the CDO continue its important role in mobilizing and coordinating the support of stakeholders at all levels around a national cotton (raw or value added) export program, even though it will be executed by the private sector.
- Also, improvements will be required at the transport, storage and marketing levels.

5. Actions:

- Ensure that proper research support is provided to the cotton production sector.
- Ensure that adequate financing is available for farmers, ginners and value adding firms.
- Improve gin utilization so as to effectively support farmers.
- Ensure the maintenance of a strong quality control program for cotton.
- Develop and continuously communicate new information (technical, market and other industry news) to farmers, ginners and value adding firms.
- Develop means for integrating the value-adding sector into the decision-making processes of the industry.
- Ensure strong coordinative support for the industry by government.

6. The Participants:

- The highest levels of government—preferably the President—should mobilize support to strengthen the competitive position of the cotton sector.
- The Special Task Force on Export Competitiveness should incorporate the key public and private groups that can make change happen.
- CDO has held a responsible role for coordinating the interface between government and industry. This effort needs to be maintained.
- The Cotton Sector Working Group, comprising leading participants and components in the sector, has already begun to recommend appropriate actions and policy changes. The COMPETE project (funded by USAID) will provide technical assistance to the Working Group.

- Private sector organizations should take on an active role to communicate technical and market information to their members and constituents.
- Donors and non-governmental organizations should be invited to participate in key aspects of building cotton's export role.

7. Short and Long -Term Action Plan:

- Initiation of the Export Competitiveness Strategy should be announced by the President and the Cabinet at a National Conference on Cotton or Export Competitiveness

Year 1 Action Plan - Enhance Productivity & Production

- Identify target farmers (and their plots) with whom to work.
- Identify district and site coordinators to implement and monitor the plots.
- Organize implementation of the demonstration plots in coordination with IDEA, NARO, ginneries and other relevant groups (already initiated).
- Train the site coordinators so that they can train farmers.
- Invite farmers to see the plots and explain what was done.
- Develop audio, video and printed materials on "best practices".
- Disseminate information materials through mass media, input suppliers and ginneries, site coordinators and others.
- Develop means for showing farmers the impact of results on sale prices.
- Develop an ongoing program for the remainder of the first year together with the Cotton Sector Working Group, including a way of monitoring results.

Years 2-5 Action Plan - Maintain, Build and Strengthen the Cotton Sector

- Build a coalition of private and public groups to lead the programs of change. At the pinnacle of this group will be the CDO.
- Continue to improve cotton farmer productivity and returns.
- Continue to work to ensure that proper research support is provided to the cotton production sector.
- Promote the expansion of large-scale cotton production estates that also support out-growers, in collaboration with UIA.
- Continually work to arrange adequate financing for farmers, ginneries and value adding firms.
- Improve gin utilization.
- Ensure the maintenance of a strong quality control program for cotton.
- Develop and continuously communicate new information (technical, market and other industry news) to farmers, ginneries and value adding firms.
- Develop means for integrating the value-adding sector into the decision-making processes of the industry.
- Promote the expansion of the value-adding sector and exports of value added products, with special emphasis on opportunities presented by the African Growth and Opportunity Act (AGOA) adopted last year by the United States of America.
- Ensure strong coordinative support for the industry within government.

8. Expected Results

- More stable international market for the premium cotton produced by Uganda
- Re-establish cotton as a reliable source of foreign exchange earnings
- Maintain and build the price premium that Ugandan cotton enjoys
- Build the commitment of farmers to the production of cotton as a cash crop
- Promote production of cotton to its prior peak
- Improve the information flows to the stakeholders in the cotton sector
- Promote the spinning, textile and other value adding sectors
- Continue to build a cohesive, mutually supportive cotton industry
- More farmer-owned and farmer participant management of cotton ginning
- Improved incomes and quality of life in cotton producing areas

IV. STRENGTHENING THE EXPORT COMPETITIVENESS OF UGANDA'S FISHERIES SECTOR

1. The Challenge:

- Uganda's fish is the country's second most important export sector. Its lead export product, Nile Perch (*Lates Niloticus*), is highly valued and competitive in world markets.
- It is estimated that the maximum sustainable yield of Nile Perch from Lake Victoria will permit Uganda to double its current exports to around \$100-\$120 million.
- Strict environmental and stock management of this natural resource is indispensable if Uganda is to meet these targets and sustain them.
- However, to expand beyond these targets, Uganda must protect its existing stock and look for new sources of fish, such as fish farming and aquaculture.
- The sector also needs to explore the potential for product and market diversification from its current production.

2. The Problem:

- Preservation and sound management of fish resources remain a major challenge for the sector.
- Poor harvesting practices by local fishermen damage and reduce fish stocks, and this must be addressed.
- Maintaining the quality of the processed product must be addressed on a continuous basis.
- Lack of proper infrastructure such as strategically located landing, transit and cooling facilities has led to a significant loss of fish for Ugandan processors.
- A large portion of harvested perch (67%) is not processed into exportable products.

3. The Opportunity:

- Ugandan white fish, namely Nile Perch, is highly valued in developed country markets, a trend that is likely to continue.
- Fish farming offers enormous potential for fish stock expansion and diversification, with very positive impacts on exports.
- Modified and diversified fish processing can provide new products for export to existing and new markets.

4. The Strategy:

- Uganda must address the need not only to preserve its current stocks, but also to expand future fish production through fish farming and aquaculture.
- The focus must be on taking advantage of the very favorable conditions for fish farming and expanding this production throughout the country.
- Significant resources for infrastructure and technical assistance need to be provided to create this new initiative to expand fish production.

5. Actions:

- Vigorous action needs to be taken to preserve and maintain existing fish resources in Lake Victoria and other inland waterways.
- Fish stocks must be expanded, namely through fish farming, by bringing in the technology, investment and infrastructure needed to support this effort.
- New market opportunities for diversified fish products in non-traditional markets need to be investigated, enabling Uganda to significantly increase its exports from current resources.
- Infrastructure needs to be strengthened for both traditional and new fish products.
- Information and human resource development will be essential to building future competitiveness.
- Finance and credit facilities must be expanded to support the fishing sector.
- Modalities must be developed to work within the fishing communities to communicate information about best practices.

6. The Participants:

- The Special Task Force on Export Competitiveness, to take the lead in recommending government policies and initiatives.
- The Fisheries Sector Working Group composed principally of private sector representatives, to drive the process of competitive reforms.
- The COMPETE team, funded by USAID, to advise the Working Group.
- Private sector organizations such as the Uganda Fish Processors and Exporters Association and the Private Sector Foundation, to coordinate activities in the sector.
- Public sector agencies, including the Uganda Investment Authority, to improve the operating environment for fisheries and attract foreign technology and capital.

7. Short and Long Term Action Plan:

- Initiation of the Export Competitiveness Strategy should be announced by the President and the Cabinet at a National Conference on Fisheries or Export Competitiveness

Year 1 Action Plan – Maintenance

- Harmonize laws with Kenya and Tanzania regarding the preservation of Lake Victoria, its water quality and its stock.
- Support the on-going initiative to develop and utilize better fish handling methods.
- Initiate a feasibility study of fish farming, focusing on breeding, infrastructure, ecology, training and cost.
- Undertake market surveys for opportunities in new, high value and medium value fish products, apart from fish fillets.

Years 2-5 Action Plan - Expansion and Increased Quality Image

- In collaboration with the Uganda Investment Authority, initiate investment promotion activities to attract international capital.
- Work towards developing a specific Quality Seal for Uganda fish products
- Based on the development of new products, expand into new and existing markets.
- Move fish farming from the pilot stage to a commercial stage.
- Work towards the development of a total package of services for the fisheries sector focusing on investment, the regulatory environment, information, training and finance.

8. Expected Results

- Enhancement of Uganda's market image and quality assurance with foreign buyers.
- New markets developed for diversified fish products.
- New by-products developed for non-traditional markets.
- Increase in foreign exchange earnings from exports of fish and fish products.
- New fish farming initiatives with pilot projects developed throughout the country.
- Improvement and development of new fish landing facilities on Lake Victoria.
- Introduction and utilization of better practices in fish capture and fish handling.
- New regulations and guidelines for optimum fish harvesting practices.
- Information campaign to transmit information to fishing communities.
- Development of 'quality seals' to be awarded fish processors that meet high processing standards for export.
- Socio-economic development of the fishing community through a package of services.
- A self-regulatory protocol signed by Uganda, Tanzania, and Kenya for the maintenance and preservation of the Lake Victoria water quality and fish stock.